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C O N F I D E N T I A L CARACAS 002362

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TREASURY FOR MMALLOY
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COMMERCE FOR 4431/MAC/WH/MCAMERON

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SUBJECT: WISHING AWAY THE PARALLEL RATE: NATIONAL ASSEMBLY
REVISES LAW ON ILLEGAL FX OPERATIONS

REF: CARACAS 2186

Classified By: Economic Counselor Andrew N. Bowen for reasons 1.4 (b) a
nd (d).

11. (U) The National Assembly on December 13 approved a law revising the 2005 law on illicit foreign currency transactions. The new law, which will go into effect pending presidential approval and publication in the Official Gazette, continues to allow the bond transactions on which the parallel foreign exchange market is based. However, it makes it illegal to announce or publish foreign exchange rates different than the official rate (currently 2150 bolivars (Bs) to the USD), with a fine of approximately Bs 37 million (USD 17,000 at the official rate) for violators. In an attempt to deter price gauging, merchants who received CADIVI dollars to import merchandise are required to post a sign so notifying consumers. (Note: CADIVI is the BRV agency charged with allocating hard currency at the official rate. End note.) CADIVI allocations to individuals (e.g., for credit card purchases or travel abroad) are declared non-transferable, and fines are established for those who use hard currency for anything other than the purpose stated to CADIVI.

12. (SBU) Many local commentators have pointed out the absurdity of forbidding publication of the parallel foreign exchange rate. They note that despite occasional comments of senior BRV officials to the effect that the parallel market "does not exist," the BRV is the largest supplier of dollars to the non-official market via auctions of dollar-denominated bonds payable in Bs (reftel). Rather than reduce the impact of the parallel market, which is the intent of the law, commentators note that the revisions will simply make the market less transparent. Financial websites based in Venezuela have already modified their content in anticipation of publication of the new law: VenAmCham has ceased posting the parallel rate on its website, and Veneconomia continues to publish the parallel rate but now calls it "bond prices." Offshore-hosted website Dolar Parelelo continues to publish the parallel rate.

13. (C) Comment: The revisions were no surprise to local observers, as the ideas had been circulating for some time. It is unclear whether they will have any substantive effect. As described above, people will continue to find ways of

sharing information about the parallel rate. The increased deterrent may somewhat reduce fraudulent use of CADIVI allocations by individuals, but the impact will be limited because the potential gains from fraud continue to be high thanks to the difference between the official and parallel rates. Finally, merchants are unlikely to change their prices because of the requirement to notify the public whether or not they received CADIVI dollars for their imports. While the new law may have limited overall impact, it does increase the BRV's punitive powers, giving the government another prospective tool in its arsenal to harass opponents and detractors. End comment.

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